

## Business Plan

**CENTRECOM, INCORPORATED**

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## **CONFIDENTIALITY STATEMENT**

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## MEMORANDUM OF RISK

All information contained herein, including projections of future performance, reflect the opinion and judgements of the Company, and while based on the information available to the Company, can only be considered a reasonable estimate of what will take place in the future. Furthermore, the Company may alter its plans and/or projections, as outlined herein, without notice, from time to time in the normal course of business.

Any and all representations shall be made solely by the Company and shall be set forth in the subscription documents. While the information provided herein is believed to be accurate, the Company does not make any express or implied representation or warranty as to the accuracy or completeness of this information. The Company expects that each prospective investor will make his or her own independent investigation at his or her own expense. Statements herein are made as of the date hereof. Neither the delivery of this business plan nor any transaction made hereby shall create, under any circumstance, the implication that there has been no change in any information contained herein since the date hereof.

**Information contained herein includes "forward-looking statements" which can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "should", or anticipates" or the negatives thereof or other variations thereof. The preceding matters constitute cautionary statements identifying important factors with respect to such forward-looking statements, including certain risks and uncertainties that could cause actual results to vary materially from the future results covered in such forward-looking statements. Other factors could also cause actual results to vary materially from the future results covered in such forward-looking statements.**

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No person has been authorized to give any information or make any representation other than those contained herein and, if given or made, such information or representation must not be relied upon as having been authorized by the Company. This business plan does not constitute an offer to sell or solicitation of an offer to buy these securities in any state or to any person to whom such offer may not be lawfully made. Neither the delivery of this business plan nor sales made hereunder shall create, under any circumstance, the implication that there has been no change in the affairs of the Company since the date of this business plan.

## EXECUTIVE SUMMARY

CentreCom was formed to take advantage of the opportunities created as a result of the convergence of traditional telecommunications with the Internet. The Company is a worldwide next generation telecommunications service provider that is voice enabling the Internet with enhanced business and personal Internet phone service and e-commerce applications.

**CentreCom is currently providing enhanced Internet telephony solutions to both individual and business customers. The Company utilizes its proprietary technology to provide a full range of Internet telephony services, including PC-to-phone, phone-to-phone, PC-to-PC and two services that are not available from any other companies in the market today:**

- **Phone-to-PC calling, which enables the receipt of phone calls anywhere in the world on any multimedia PC via the Internet.**
- **Enhanced calling services in the Internet telephony environment, including voice messaging, call screening, conference calling, unified messaging (faxes and e-mails as voice mails), and one number follow-me. These enhanced calling services are the engine that allows CentreCom to provide businesses with full featured Internet telephony networks that are real alternatives to their current, more expensive phone service.**

Because the Company's patent-pending, proprietary technology integrates current phone and Internet technologies with cutting edge Voice over IP technology, all of the Company's services are fully functional without the purchase of additional equipment or systems. Customers can access these services simply by dialing their CentreCom provided local or toll free number using any of a number of devices, including standard phones, cell phones, and computers attached to the Internet through any means (i.e., dial up modem, ISDN, DSL, cable modem, etc.). PC-to-phone and phone-to-PC calling quality is not significantly impacted by the speed of the Internet connection.

The Company launched its CentreOne service in September 1999 and is currently activating customers worldwide. As part of its strategic plan, CentreCom has entered into or is currently in negotiations on several major distribution and marketing agreements for its products. The Company is seeking additional capital to execute the other major components of its strategic growth plan, which include an integrated marketing campaign and the acquisition of the infrastructure necessary to support the Company's anticipated growth.

CentreCom intends to leverage its customer base to earn multiple streams of revenue, including monthly access fees, usage charges, additional services, streaming advertising sales, and e-commerce revenue sharing arrangements. Management believes that the convenience of the Company's service and its ability to provide inbound calling, one number follow-me (i.e., the CentreCom number rings at up to three numbers simultaneously), voice messaging, and fax and e-mail messaging will encourage customers to give out their CentreCom number to friends and business associates thereby making it a "sticky" application. Once disseminated, customers are reluctant to give up their CentreCom phone number, thus providing more customer loyalty and the ability to sell other services.

For PC based outgoing and incoming calling, CentreCom utilizes as its PC based phone, Microsoft's NetMeeting 3.0 software, which Microsoft provides to the Company and its subscribers for free. This software is widely available for free on the World Wide Web and CentreCom's web site. The Company has also entered into agreements with strategic partners to include the Net Meeting software and the Company's activation information with the products that they sell. The Company anticipate working with Microsoft in the future to customize NetMeeting and to provide additional features that management believe will enhance the CentreCom products. In addition, once customized, the NetMeeting "phone" will be able to receive streaming audio and video advertisements that can be individually targeted based on user demographics.

Management believes that the following strengths provide CentreCom with an advantage over its competitors:

- **Proprietary and patent-pending** technology that permits enhanced calling features in the Internet telephony environment (i.e., real time voice and fax unified messaging, "follow-me", etc.). Management believes that these features provide business and residential customers with the first Internet telephony solution that is a complete and real alternative to traditional telephony.
- CentreCom is the only company, to management's knowledge, that currently **provides both inbound and outbound calling through the Internet and regular phone lines**. The inbound calling feature also provides customers with Internet Call Waiting, which permits users to screen and receive phone calls while surfing the Web, a compelling feature when two-thirds of all U.S. households have only one phone line.
- CentreCom's services are "sticky" applications that build customer loyalty as a result of customers being assigned CentreCom phone numbers, which they provide to their network of business associates, friends and acquaintances. Additionally, the NetMeeting software is a persistent client that resides on the desktop and can operate in tandem with a Web browser. The NetMeeting software must remain open in order for customers to receive incoming calls on their computers thereby creating a continuous opportunity for the streaming of audio and video advertising.
- CentreCom owns advanced Priority Call Management ("PCM") switches which enable it to bundle low cost local, long-distance, and Voice over IP services for its customers on a worldwide basis at extremely competitive price points.
- The Company products are packaged to allow it to pursue multiple, but related revenue streams including monthly subscriber and usage charges and direct to user and portal advertising opportunities.
- The Microsoft NetMeeting software that the Company utilizes for computer-based calling is widely available for free. In the future the Company will benefit from Microsoft's continued development, support and deployment of the product without significant cost to the Company.
- The Company has a close, working relationship with Cisco Systems, Inc. ("Cisco") and is a Microsoft partner. Both of these relationships provide CentreCom with access to expanded marketing, advertising and technical support. Cisco has previously provided the Company with equipment lease financing and has recently presented a letter of intent for a [REDACTED] financing package for additional equipment and working capital. CentreCom was a Microsoft featured telecommunications provider in September 1999 and participated with Microsoft in demonstrating its products at the COMDEX convention in Las Vegas in mid November 1999.

## Market Opportunity

Internet telephony is widely considered the future of voice and data telecommunications. The ability to provide voice across the Internet dramatically reduces the infrastructure requirements and operating cost of delivering a dial tone to a customer. International Data Corporation projects that the Internet telephony market will grow from approximately \$1.1 billion in 1998 to over \$23.4 billion by 2003.

Despite the cost advantages of Internet telephony, consumers, especially businesses, have not been compelled to switch from their traditional services because many of the enhanced calling features they rely on to increase productivity (i.e., voicemail, call waiting, call conferencing, etc.) have not been available in the Internet telephony environment. Many telecommunications experts believe that these enhanced calling services are critical to any large-scale transition to Internet telephony.

Forrester Research estimates that 62% of online shoppers have aborted an online transaction and that the conversion rate from browsers to purchasers is approximately 2%. Management believes that online retailers that spend significant amounts getting customers to their Web sites and to the point of purchase are open to applications that will increase these conversion statistics. The Company's voice over the Internet technology permits it to offer e-commerce applications, such as web-enabled click to call services for call center applications and immediate click thru response to Internet based advertising. These applications allow customers real time access to customer service to address any concerns or questions and increase the probability of closing the sale. This communication takes place without the customer logging off the Internet.

**CentreCom's products integrate, for the first time, the enhanced calling features customers demand with the low cost of Internet telephony. Management believes the resulting value proposition to customers will be the catalyst for a large-scale conversion to Internet telephony in both the residential and business markets.**

## CentreCom Products

The Company's current product offerings are as follows:

**CentreOne** – CentreCom's base product for business and individual use. CentreOne is the only product on the marketplace that allows a customer to receive phone calls anywhere in the world on any multimedia PC connected to the Internet. In addition, only CentreOne customers receive real time enhanced calling features in the Internet telephony environment. These features are in addition to the standard bundled features that CentreOne customers receive, including phone-to-phone, PC-to-PC and PC-to-phone calling, real time unified messaging, one number capabilities, and inexpensive domestic and international long distance telephone service (e.g., \$.045 per minute within the U.S.). This product can be used from anywhere in the world without additional investment in equipment.

CentreOne also provides customers with Internet Call Waiting, which permits users with one phone line to screen and receive phone calls while surfing the Web.

**CentreOne Business Network** integrates with existing PBX systems and provides any size business with an integrated Internet/traditional telephony network solution. CentreOne Business Network enables companies to form a flexible, worldwide, private telecommunications network that provides the above CentreOne features, as well as voice and fax distribution and extension dialing within the private network. Unlike current networks, the CentreOne Business Network "follows" members worldwide without any input from the member (i.e., no need to forward phones, etc.).

CentreOne service is currently being offered for \$9.95 per line, per month, plus usage charges, subject to an activation promotion.

**CentreCall –** Designed primarily for call center applications, this product places a “click to call” icon on a company’s web site allowing individuals browsing the Internet to speak directly with the sales or customer service representatives of CentreCall enabled online businesses without disconnecting from the Web. CentreCall is a plug-and-play product that can support both traditional call center technology, as well as Internet telephony enabled call centers.

CentreCom provides the service for an annual fee of \$150 plus a \$100 installation fee and \$.08 per minute for all calls routed to a business customer’s call center.

**The Box –** Designed to provide a local dial tone via Internet telephony for residential and business customers who plug their standard phones into the “Box”. The compression technology included in the Box enables a customer to access multiple phone lines connected to the Internet through Frame, Wireless IP, ISDN, DSL or cable modem technologies. The Company currently offers the Box for purchase or lease, and CentreOne service for a monthly fee of \$9.95 per line, plus usage charges.

**Wholesale –** As a facility based telecommunications provider, the Company is able to provide wholesale minutes to resellers. While wholesaling is not a main business focus of the Company, it leverages the existing and planned infrastructure to provide an additional revenue stream that has a low cost of delivery. This traffic will increasingly be directed over the Internet as CentreCom builds out its Voice over IP network.

**Utilizing the Internet backbone as the primary infrastructure for carrying the Company’s voice and data traffic, the Company’s business model is worldwide and highly scaleable. The Company can quickly add additional switches and customer service personnel as the customer base dictates, thereby allowing for rapid growth.**

## **Strategic Growth Plan**

The CentreCom strategic growth plan is comprised of four principal components that, together, will enable the Company to i) rapidly build a customer base, ii) develop a widely recognized brand, iii) capture projected market share, and iv) drive customer loyalty.

### ***Aggressive Multimedia and Viral Marketing Programs***

The Company’s marketing program is the single most important aspect of CentreCom’s overall strategic growth plan. The Company’s marketing plan entails the rapid development of a large customer base through an integrated marketing and advertising program that includes viral marketing, distribution of the NetMeeting software, activation promotions, distribution and marketing partnerships, web-based promotions and traditional image-building advertising. The Company is currently offering a \$50 service and calling activation promotion. The inclusion of free service in the activation promotion allows customers to become acclimated to the numerous features of their CentreOne account, thus driving higher minute usage once the promotional period expires. In addition, management believes that the promotional service offering will continue to drive viral distribution through recommendations and referrals.

### ***Strategic Distribution and Marketing Partnerships***

Strategic partnership programs are another principal component of CentreCom's strategic growth plan. By entering into strategic partnerships, the Company seeks to mitigate some of the substantial costs of marketing its products, more expeditiously distribute its products to a wider population, and rapidly build brand recognition and a loyal customer base. The Company has already entered into agreements with various partners, including the following:

- The Company has entered into an agreement to be the ~~exclusive~~ Phone Company and promote the CentreOne product. ~~CentreCom~~ will also sell the CentreCall product through its web site hosting operation.
- ~~CentreCom~~ and the Company have entered into a preliminary marketing agreement to bundle the Company's CentreOne product, including the NetMeeting software, with ~~CentreCom~~ video cards. ~~CentreCom~~ is projecting to ship its products to over 1,000,000 new customers per month.
- CentreCom has an agreement in principle with ~~CentreCom~~ that allows the Company to place tent cards promoting the CentreOne service in the hotel rooms. The promotion will initially be rolled out to the ~~CentreCom~~ Towers with plans to expand the promotion to other ~~CentreCom~~ properties.

The Company is actively pursuing additional partnership relationships with companies whose capabilities or user base can strategically augment, accelerate or extend the reach and recognition of the CentreCom brand name and customer base. Management believes that it will execute several significant strategic partnership agreements in the near term including arrangements with ~~CentreCom~~ Corporation, ~~CentreCom~~ Electronics, and a leading manufacture of PC phone cards. Management also believes that there is a large opportunity for, and is actively pursuing, relationships with Internet and broadband service providers, including DSL and wireless Internet service providers.

### ***Direct Distribution and Internal Sales***

While strategic partnerships are an important part of the Company's distribution strategy, management recognizes the need to utilize other distribution methods, especially to reach international business and individual customers. CentreCom is currently developing a worldwide network of independent distributors for all of its products. The Company has received several applications for distributorships and is in the process of screening and qualifying these applicants. To effectively market to large business customers, CentreCom plans to build an internal sales team that will be responsible for identifying, selling and supporting the CentreOne Business Network and CentreCall products to large companies as well as assisting the distributor network with large international accounts.

### ***Infrastructure***

The continued acquisition of infrastructure to support the Company's projected growth is a key component of the Company's strategic plan. In the short-term, the Company is acquiring unified messaging equipment, additional switching platforms and other network related equipment to complete the initial outfitting of its network operations center. In the medium-term, the Company will complete the build-out of a private Internet telephony network (often referred to as a Voice over IP network), with plans to locate access points to the network in Dallas, Atlanta and Florida within 90 days of funding. This private network will allow the Company to transmit calls within its network at an extremely low cost, further increasing its competitive advantage.

## Summary

The Company utilizes its proprietary patent-pending technologies to provide unique voice enabling products for the Internet. These products are the only ones in the market that provide phone-to-PC calling, Internet call waiting and a real Internet telephony business network that is an alternative to traditional telecommunication networks. In addition to offering superior functionality in comparison to its competitors, the assigning of local and toll free numbers to customers creates a sticky application. Further, for those customers that utilize the phone-to-PC product, the CentreCom phone is a persistent client on customers' desktops.

As a next generation telecommunications provider offering a multitude of enhanced business and individual communications services, CentreCom is well positioned to generate several residual revenue streams from its current and prospective customers.

While CentreCom management is successfully developing key strategic relationships and has begun to bring the Company's products to market, additional capital is required to continue the implementation of the Company's strategic growth plan including the execution of its global marketing strategy and acquisition of the infrastructure necessary to support projected growth.

## THE MARKET

The Internet is experiencing unprecedented growth as a global medium for communications and commerce. International Data Corporation estimates that the number of Internet users worldwide will grow from approximately 142 million at the end of 1998 to 399 million by the end of 2002. These users are increasingly using the Internet as a communications medium. A recent study by E-Marketer, a market research firm, estimated that 9.4 billion e-mail messages are delivered daily. Consumers are increasingly demanding "real time" communications as evidenced by the widespread acceptance of instant messaging and chat rooms. Management believes that the integration of voice communications with the other current Internet communication applications represents a significant market opportunity.

Online commerce is also becoming widely accepted as a means of doing business. According to International Data Corporation, Internet users worldwide purchased more than \$50 billion of goods and services in 1998, and are projected to purchase approximately \$1.3 trillion of goods and services in 2003. In spite of the growth in sales, according to Forrester Research, online retailers continue to face a relatively low proportion of purchasers to browsers (approximately 2%) and a high rate of aborted purchase transactions. Voice enabled Web technologies, such as CentreCom's CentreCall product, that allow browsers real-time communication with customer service representatives without logging off of the Internet can help increase sell-through rates. This argument is especially compelling to online retailers because approximately 2/3rds of U.S. households only have one phone line (Dell/Harris).

### Internet Telephony

Internet telephony utilizes Voice over IP technology to enable companies to provide consumers with local and long distance telephone service using primarily the Internet instead of traditional telephone lines. As a result, Internet telephony companies can provide local and long distance telephone service on a worldwide basis without the infrastructure investment that has been historically necessary. TeleGeography, a market research firm, estimates that the international long distance market will grow to \$79 billion in 2001, with consumers and businesses making an estimated 143 billion minutes of international long distance calls.

Despite the large size of this market and the number of minutes of calls made, tariffs set by foreign governments and carriers cause traditional international long distance calls to still be relatively expensive for the consumer. Internet telephony, which is currently not subject to such tariffs and utilizes more cost-effective technology, has emerged as a low cost alternative to traditional long distance calls. The lower costs of this medium are widely acknowledged as catalysts for a shift from traditional telephony to Internet telephony over the next several years. International Data Corporation projects that the Internet telephony market will grow rapidly from approximately \$1.1 billion in 1998 to over \$23.4 billion in 2003.

Internet telephony uses a technology called "packet-switching" to compress voice and fax calls into discrete data packets, route them over the Internet or a private network and reassemble them into their original form for delivery to the recipient. Traditional international long distance calls, in contrast, are made using a technology called "circuit switching" which carries these calls over international voice telephone networks. Foreign governments and carriers typically own these networks and charge a tariff for their use.

Circuit switching requires a dedicated connection between the caller and the recipient that must remain open for the duration of the call. As a result, circuit-switching technology is inherently less efficient than packet-switching technology that allows data packets, representing multiple conversations, to be carried over the same line. This greater efficiency creates network cost savings that can be passed on to the consumer in the form of lower long distance rates.

Management believes that the low long distance rates that are available with Internet telephony are only the beginning of the benefits of this technology to individuals and businesses. The technologies that

enable Internet telephony can be applied to integrate live voice capabilities into the Web. The Company believes that this integration can further enhance the potential for the Internet to become the preferred medium for both communications and commerce. For example, the integration of voice into the Web would supplement existing text-based modes of Internet communication such as e-mail and online chat by adding a live, secure, low-cost or free voice alternative. Management believes that this will be attractive to both consumers and businesses.

In addition, voice-enabling the Web has wide spread implications and applications for the current e-commerce models by allowing Internet shoppers the ability to speak directly with customer service and sales representatives. By allowing shoppers to ask question and alleviate concerns about on-line security, the probability of a sale is increased as well as creating the opportunity to sell higher margin products and additional or add-on products (a common retail practice known as "up-selling").

The growth of Internet telephony has been limited to date due to poor sound quality attributable to technological issues such as delays in packet transmission, network capacity limitations, and the lack of enhanced calling features. Recent improvements in packet-switching technology, new software algorithms and improved hardware have substantially reduced delays in packet transmission. In addition, the emergence of new, lower cost Internet access technologies, such as high-speed modems and digital subscriber lines ("DSL"), are addressing local Internet access issues across a wider portion of the public. Forrester Research projects that the number of households connecting to the Internet through cable modems and DSL is expected to grow from effectively zero in 1998 to 13.6 million and 2.2 million, respectively, by 2002. CentreCom is the first company to effectively provide enhanced calling features in the Internet telephony market.

## **The Future**

The marketplace is seeing a rapid convergence of voice and data communications with the Internet. One example of this convergence is the development of smart wireless Internet and Local Area Network ("LAN") devices. Several large companies including Nokia, Motorola, and Vodafone have or are expected to release digital smart phones that include micro browsers that allow users to access limited information on the Web through their phones. Other handheld equipment manufactures, such as 3Com and Handspring, are developing wireless Web access for their palm sized data devices. Still other companies are focusing on fully functional wireless Internet access on PC's. According to the Yankee Group and Ovum Ltd., 56% of all companies surveyed want to receive wireless data via their phone, with another 21% selecting notebook computers as the preferred device. This survey strongly suggests that palm sized data device manufactures and wireless Internet providers must offer some form of voice communication in order to compete effectively. This fact appears to be acknowledged by innovative manufactures like Handspring that are offering phone attachments that "snap" onto their data devices.

CentreCom's services provide the voice communication capabilities that these wireless companies need to make their products viable for the broad market. In fact, CentreCom can effectively turn a handheld data device, such as a Palm Pilot, with wireless Internet access and sound capabilities, into a wireless phone that has all the features of a traditional wireless phone, but at a significantly lower cost. Once wireless data networks become international, which appears to be inevitable, a wireless Internet enabled device with CentreOne service becomes a worldwide wireless phone. The Company is already in discussion with wireless Internet providers about bundling CentreOne service with their product offerings. A growing number of companies, including Microsoft, Apple and BMW, are beginning to develop and use wireless LAN's due to the flexibility that it allows in placing workers and workstations within a company. The CentreOne Business Network enables companies that are adopting wireless LAN's to completely "cut the cord." An employee on a wireless LAN connected to the Internet receives fully enhanced phone service regardless of physical location.

**REDACTED**

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## THE COMPANY

CentreCom's services are provided using proprietary technology that integrates advanced telephone-switching equipment with Voice over IP technologies. CentreCom owns three Priority Call Management switches that enable the Company to provide services for up to 200,000 customers. As part of the Company's expansion plans, the Company intends to build out a global private Internet telephony network (often referred to as a Voice over IP network), locating access points to the network in several major cities within 90 days of funding. The private network will allow the Company to transmit calls within its network at an extremely low cost.

### The Company's Strategy

CentreCom's mission is to become a premier next generation telecommunication service provider utilizing a blend of Voice over IP and advanced conventional telephony technology to provide global communication solutions for both individual and business consumers.

CentreCom's business strategy includes:

1. Leveraging the Company's early position in the Internet telephony market to make CentreCom's communications products readily available worldwide.
2. Developing and marketing e-commerce applications and related products.
3. Driving the growth of the customer base by:
  - a) Offering activation promotions that include free CentreOne service and calling to new subscribers to build brand and product loyalty.
  - b) Developing brand recognition through extensive advertising and public relations activities.
  - c) Contracting with strategic marketing and distribution partners that have existing or growing customer bases.
  - d) Rapidly expanding the direct distribution and sales channels for the CentreCom product line.
  - e) Near-term expansion of the Company's infrastructure to support projected growth.

Short-term detailed initiatives developed as a result of the Company's business strategy include:

1. **Building the CentreCom customer base through the execution of global product distribution and marketing agreements.**

CentreCom will promote its products through domestic and international telecommunications distributors and through relationships with leading Internet hardware, software and content companies. The Company has already developed marketing relationships with leading companies such as [REDACTED] and [REDACTED], and continues to pursue similar relationships with other consumer products companies, as well as, leading computer hardware and software companies and Internet service providers. Management intends to build on these relationships and to add more partners and distributors to drive usage of the Company's services. Management believes that strategic partnerships such as the one with [REDACTED], increase the CentreCom customer base, inexpensively develop the CentreCom brand, and provide substantial opportunity to sell additional CentreCom products and services.

Management also plans on collaborating with large telecommunications companies worldwide to enable them to offer the Company's Internet telephony services under their brand.

**2. Increasing brand recognition.**

The Company will establish strong worldwide brand identity as a result of the quality of its products, extensive marketing, price positioning, and unique product offerings. Management intends to implement aggressive advertising and sales campaigns to increase brand awareness through traditional media and print advertising, Internet marketing, and public relations.

**3. Continued development of the Company's strategic partnerships with Microsoft, Cisco and Sun Microsystems ("Sun").**

The Company will continue to strengthen its relationships with its key hardware and software providers to further the development of its worldwide brand, product and network strategies.

- The Company intends to work closely with Microsoft to enhance the capabilities of NetMeeting in order to develop additional evolutionary applications for the NetMeeting product including video and audio streaming of advertisements.
- The Company will continue to work very closely with Cisco to remain in the forefront of the Voice over IP technology.
- The Company is currently completing the documentation necessary to become a Sun business partner which would enable the Company to have access to top level Sun management and engineering support.

**4. Developing multiple sources of revenue.**

In addition to minute-based revenue and monthly service fees, management intends to pursue banner, streaming video and sponsorship advertising revenues, as well as e-commerce revenue sharing opportunities. E-commerce revenue-sharing opportunities include arrangements with online retailers, hospitality companies, and service based organizations that use the CentreCall product or other CentreCom products in their sales effort.

**5. Commencing with the installation of a worldwide global private network.**

The Company intends to build a private worldwide Voice over IP network to bypass LEC owned phone lines and lower the cost of delivering telephony service within the network. CentreCom intends to build out in phases its network, which is composed of Voice over IP gateways in key geographic locations that are commonly referred to as Points of Presence ("POP's").

During the first phase the Company plans to establish POP's in major domestic cities that have a "free calling radius," such as Atlanta and Dallas. The implementation of the second phase will be directed primarily at establishing POP's in major domestic cities that are not covered in the first phase and certain international cities. The order and location of the POP's established in the second phase will be dependent on many factors that will be evaluated by management on an ongoing basis, including origin and destination of the traffic and local regulations and practices. The Company has received an expression of interest from an international company wishing to partner with CentreCom to build a Voice over IP network in Australia. Management is continuing discussions with this company and may consider entering into this and other such partnerships as part of its international network strategy.

**REDACTED**

## CENTRECOM PRODUCTS

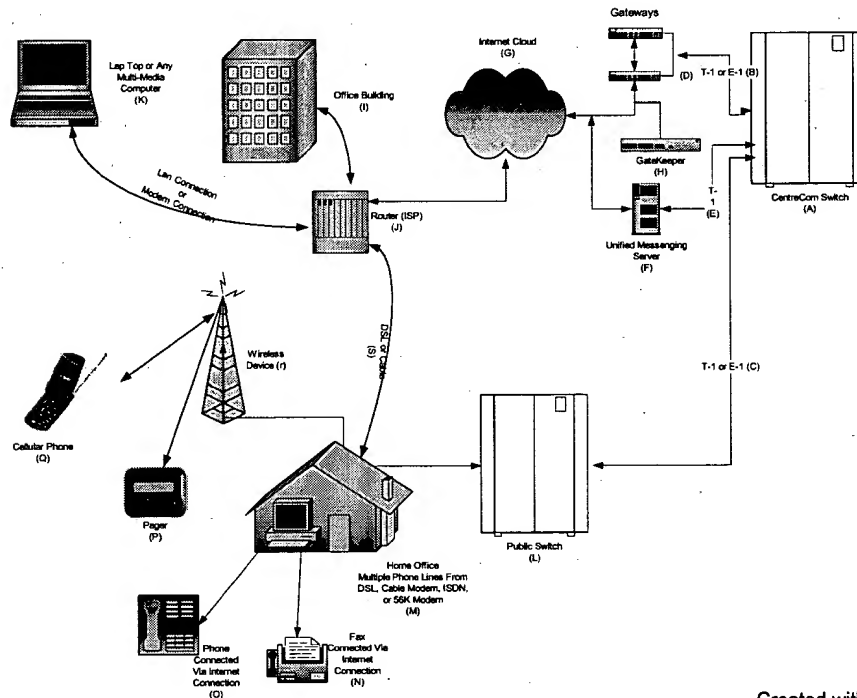
CentreCom is the only company management is aware of offering phone-to-PC calling and real time enhanced calling features over the Internet and switched networks.

CentreCom's current product offerings include:

1. **CentreOne Personal** is the complete telecommunications solution for individuals. This service allows customers to make low cost telephone calls from any phone by dialing a local or toll free access number or multimedia computer loaded with Microsoft NetMeeting and connected to the Internet. In addition, it provides the user with a tool set of enhanced calling features, including "One Number Follow-me" for phone and fax, voice mail, call screening, conference calling and call waiting. The "One-Number Follow-Me" platform provides customers the luxury of "giving out" only one number for all of their communications. When this one number is called, the customer is simultaneously notified on up to three numbers and his/her pager. When the customer answers this notification, he/she is able to screen the call and then either take the call, forward it to another party, put the caller into voice mail or terminate the call.

As a further enhancement to the CentreOne service offering, the Company has contracted with Cisco to obtain a real time unified messaging system that is expected to be operational by the end of December 1999. Unified messaging converts CentreOne customers' voice mails and faxes into e-mail and permits the conversion of e-mail to voice through text to speech capabilities. **See Exhibit (A).**

**Exhibit A**



CentreOne Personal also provides individuals with "Internet Call Waiting." This allows customers to screen and receive phone calls while surfing the Web, even if they have only one phone line. This feature alone makes CentreOne a valuable service to many households, as Dell/Harris estimates that 2/3rds of all U.S. households only have one phone line.

2. **CentreOne Business Network** is an Internet telephony solution for any business that has an Internet router. It provides all of the functionality and features that these businesses have under their current PBX systems combined with the features of the CentreOne Personal service and the ability to make low cost local and long distance phone calls over the Internet. The cost of the router upgrade necessary to utilize this product is generally less than three months of long distance telephone service for most businesses. Thus, purchasing CentreOne Business Network creates immediate dramatic savings for CentreOne business customers.

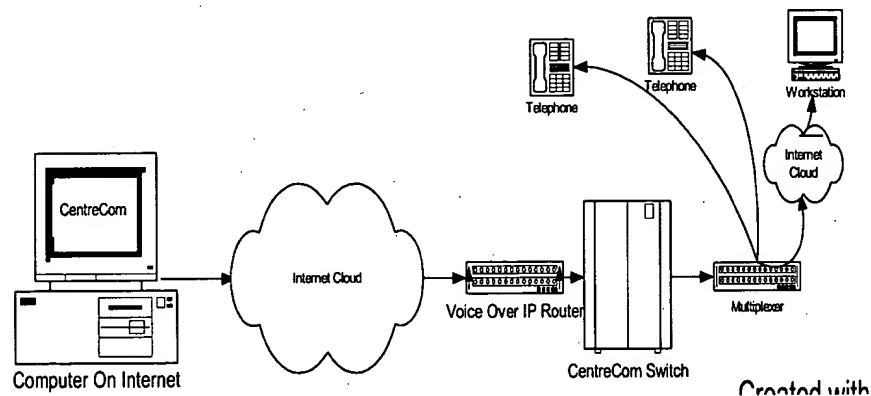
The integration of the CentreOne enhanced calling features provides an organization's personnel with extension dialing, call forwarding, personal operator (i.e., administrative assistant), conference calling and other convenient features no matter where those personnel are located or how frequently they move around.

For the first time, an organization can truly have a virtual office. The location of the individual being called and that person's physical proximity to other individuals within that organization is transparent to the person calling. The private telecommunications network formed by CentreOne Business Network is completely flexible. Members of the network can be reached anywhere in the world on a PC connected to the Internet. Further, as the system transmits calls to the subscriber on up to three phone numbers at once, network members need not forward calls when they are working or traveling outside of the office.

Eventually, the need to be connected to the Internet by modem or network connection will be replaced by wireless Internet service and wireless LAN's making the CentreOne Business Network even more valuable, flexible and transparent to the users.

3. **CentreCall™** is a Web-based "click to call" solution primarily targeted at online retailers and other e-commerce sites. While browsing a Web site that is CentreCall enabled, customers may initiate calls to the company by clicking on the CentreCall icon on the Web site. Significantly, this process does not require multiple telephone lines or a customer to log off the Internet to initiate the call. Accordingly, CentreCall allows Web surfers real time access to a company's sales or customer support organization to answer questions or concerns, thereby increasing the likelihood of completing a sale. CentreCall is based on technology that integrates traditional phone technologies with Voice over IP technologies. As a result, CentreCall can be used by any call center or in any business environment without additional capital investment. **See Exhibit (B).**

**Exhibit B**



4. **The Box** is the name that CentreCom uses to refer to a group of Internet telephony hardware devices manufactured by third parties that effectively place Voice over IP gateways in residences and small businesses.

The Company currently has a co-marketing and distribution agreement with TEK DigiTel Corporation ("TEK DigiTel"). The TEK DigiTel device provides customers that have high speed Internet access via a cable modem, ISDN or DSL with up to four Internet telephony dial tones for their local and long distance calling at a much lower per minute cost than their Local Exchange Carrier ("LEC"). This device does not require any changes in the customers' existing phones and eliminates the need to dial an access number. Both the Company and TEK DigiTel are offering the TEK DigiTel device to customers bundled with the CentreOne service.

CentreCom is currently in discussions with other manufacturers of both stand alone and computer card Internet telephony hardware devices at lower price points (approximately \$100-\$200). The Company intends to enter into co-marketing and distribution partnerships with one or more of these companies. One such hardware manufacturer has approached the Company regarding bundling its hardware with CentreOne service for sale to DSL providers.

5. The Company offers **Wholesale Telephony Services** in the local and long distance market through both packet based and circuit switched technologies. By offering these services through the Internet, CentreCom is able to be a worldwide local and long distance service provider in both the business and residential market.

**REDACTED**

## EXIT STRATEGY

A core Company requirement for maximizing shareholder value is to continuously evaluate various exit strategies and liquidity generating opportunities. Management believes that the following scenarios are currently the most likely potential exit and/or liquidity generating strategies:

- **Initial and Secondary Public Offerings.** As part of its overall financing plan, the Company plans to periodically evaluate the advisability of undertaking an initial public offering ("IPO") or post IPO, secondary offerings of its equity securities as a source of additional financing and to provide early stage investors with liquidity. Management will continually reevaluate the financial needs of the Company, as well as market conditions, to determine the most beneficial timing for such an offering(s). In the event that the Company deems such a transaction(s) in the best interest of its shareholders, it will seek to initiate them at such time(s) when market conditions are appropriate.
- **Sale of the Company.** Management believes that by building a successful Internet telephony brand, possessing unique technology and products, and a developing a strong customer base, the Company will likely become an attractive acquisition candidate for major telecommunication and/or Internet companies. The valuation of the Company in the event of a sale is dependent on many factors, including the nature of the buyer, structure of the transaction, type of compensation paid, anticipated prospects for the Company's products and market conditions.

## **SALES, MARKETING AND DISTRIBUTION**

The Company's sales and marketing strategy centers around five key elements that are designed to build brand recognition and increase the customer base: i) activation promotional incentives and a multimedia advertising campaign, ii) viral marketing, iii) strategic marketing partnerships, iv) an in-house business and key account sales team, and v) an international network of distributors.

### **Promotions and Advertising**

Management believes that service and long distance calling promotions are effective ways to attract customers of the CentreOne service and build credibility as a phone service provider. The Company is currently offering an activation promotion worth \$50 of CentreOne service and long distance calling. During the promotional period customers receive the complete functionality of the CentreOne Personal product, including the ability to make and receive incoming calls on the Internet, and a toll-free or local telephone number. Management believes that once customers have had an opportunity to become accustomed to the convenience of the service and have disseminated their CentreOne phone number the service becomes a "sticky" application that customers will not want to terminate. As customers near the end of their free service, customer service representatives will contact the customers via e-mail, phone and streaming video to their NetMeeting phones in order to convert the customers to full paying CentreOne customers. The Company continues to evaluate different promotion programs and anticipates employing an "AOL" style model to generate new subscribers upon completion of media and mailing materials necessary for a full-scale launch of the product line.

Management intends to launch a multimedia advertising and public relations campaign aimed at building brand awareness and generating direct sales. This advertising and public relations campaign is expected to include traditional image building through radio commercials, direct mail, selected magazines and Web based advertising. The Company plans on contracting with a professional advertising agency with Internet and communications experience to help develop the CentreCom advertising concept as well as the promotional media and mailing materials.

CentreCom has retained the public relations firm, Bock Communications, to manage its public relations campaign. Bock Communications has extensive experience with public relations in the telecommunications industry with clients such as Phone.com, NeoSoft and Primal.

### **Viral Distribution**

The Company is leveraging industry interviews and Company press releases to generate attention and increase hype among heavy telecommunication and Internet users. CentreCom plans on encouraging current users to tell their friends about the service through a reward referral program. In addition, the Company has been conducting an e-mail campaign to NetMeeting user groups and other groups known to the Company that have high international phone usage. These techniques are anticipated to generate awareness of the Company and its services in technically savvy individual users.

### **Strategic Marketing Partnerships**

The Company has an agreement in principle with Hilton Hotels to market the CentreOne product in the chain's Southern California hotel rooms, and OhGolly.com to promote the Company's products through its Web site. CentreCom is also currently pursuing strategic marketing relationships with other leading Internet and computer hardware and software companies. Under such partnerships, CentreCom intends to bundle the NetMeeting software and promotional inserts with partners' products, or embed the Company's products into the software partners' products.

## **In-House Sales Team**

CentreOne intends to market its business products domestically utilizing an in-house sales force and targeting key accounts. While the Company believes that the value proposition of the CentreCall and CentreOne Business Network products provides for a compelling sale, customer acceptance of Internet telephony is anticipated to require some education. Therefore, Company trained account representatives will inform, educate and sell business customers. These sales representatives will also allow the Company to insure that these customers receive the highest level of customer service. It is anticipated that this in-house sales team will initially be a small group that will target key customers in the U.S. Over the first year this team will be expanded into regional teams in order to more effectively cover the market and provide additional resources to the distributor network.

## **Distributor Network**

The Company considers the international market to have huge potential due to the high cost of local and long distance phone service in much of the world. Significantly, international customers currently account for approximately 40% of all CentreOne activations. To effectively and quickly reach and service these international customers, the Company initially plans on entering into agreements with distributors in the international markets covering the full spectrum of the Company's products. In addition to the sales reach, international distributors often provide front line customer support in the local language. In the future management will consider establishing a presence in those countries where the volume and local markets warrant such an investment. The Company has received strong interest from international distributors wishing to enter into a relationship with CentreCom. Management has been developing its distributor program and anticipates launching the program in early December 1999. At that time, the Company will begin qualifying those companies and individuals that have expressed an interest in being distributors.

To facilitate international distribution and attract users in foreign countries, Microsoft has developed the NetMeeting software in multiple languages (English, Spanish, Chinese, Japanese, French, Dutch, Portuguese, Italian and German) and intends to increase the number of languages. CentreCom has ten languages for its circuit switched equipment and will facilitate the implementation of additional languages. In addition, CentreCom plans to produce its portal in at least 5 additional languages to facilitate the sales and marketing efforts to main population centers worldwide.

CentreCom also plans on supplementing Web site and strategic partner selling efforts with a domestic distributor network. Management believes that this strategy will allow for the most efficient deployment of its services and products and provide for the most leverage of the planned promotion and advertising campaign. As distributors will only be paid a commission on collected revenue, this network will be incentivized to convert promotional customers to paying customers at the end of the promotion.

## **Pricing Strategy**

CentreCom utilizes an aggressive pricing model. The Company's per minute long distance rates for both traditional switched traffic and Internet telephony are as low or lower than its competitors who publish rates, including Net2Phone. The Company's per minute rates and monthly fees are far below those of its competitors in the enhanced calling services market. Management is positioning the CentreOne Personal and CentreOne Business Network service as a value added service. Accordingly, while per minute charges may become a commodity product, management believes that the Company will continue to be able to compete on the basis of services offered, rather than on price.

The Company's basic pricing philosophy is to offer its products at price points that make the products' features a compelling value proposition and drive an increasing volume of minute usage, while providing a reasonable margin. The Company anticipates being able to lower its long distance calling rates in the

future while still maintaining margins as a result of higher volume discounts from minute wholesalers, as well as the low cost of operating the Company's planned Voice over IP network.

## **MANAGEMENT**

### **Don Feuer, President, CEO & Chairman**

Don Feuer is the founder of CentreCom Inc. and was responsible for developing the Company's patent-pending technology. He coordinates the Company's overall strategic direction, participates extensively in the development of major marketing, distribution and technical partnerships and currently manages most of the day-to-day technical concerns of the Company. Mr. Feuer has been involved in facilities-based cellular and long-distance telecommunications services since 1990. He was the founder and president of one of the largest cellular rental companies in the United States known as Newport Telecom or NEWTEL. While president of NEWTEL, he was successful in winning major contracts from such major accounts as Budget Car and Truck Rentals, Raytheon, Hilton Hotels, Four Seasons Hotels, and Avis. Mr. Feuer was also responsible for managing and directing multiple locations and employees.

### **Tom Savage, Senior Vice President – Sales and Marketing**

Tom Savage brings to CentreCom more than 25 years of management experience of which the past 15 years have been in the telecommunications industry. Prior to joining CentreCom, Mr. Savage served as a Vice President of Sales for NEXTLINK in the Los Angeles/Orange County market. Prior to NEXTLINK, Mr. Savage was the Vice President of Business Development for Williams Communications (formerly WilTel). During his career he has also held positions of increasing responsibility at GTE Communications where, as District Sales Manager, he developed a seven-state region, BellSouth, IBM/Rolm, and Integrated Telecom Systems.

### **Hardy Myers, Chief Financial Officer**

Hardy Myers brings more than 15 years of financial and operating experience to CentreCom. During his career, Mr. Myers has completed two public offerings as well as numerous financings, acquisitions and other financial transactions. For the past two years Mr. Myers was the President Unique Manufacturing Corporation, a local electronics and aerospace supplier. Prior to that opportunity, he was the Chief Financial Officer, Treasurer and a Director for Safety Components International, Inc., a publicly traded international supplier of automotive safety restraint equipment. Mr. Myers was instrumental in taking Safety Components public as well as managing the rapid growth of the organization including its international expansion and acquisition activities. Earlier in his career, Mr. Myers has served as the Controller for various other companies as well as worked for Price Waterhouse. Mr. Myers is a certified public accountant.

### **Kathleen Feuer, Vice President – Strategic Relationships**

Kathleen Feuer is co-founder of CentreCom. She is currently responsible for assisting with the development of the Company's strategic marketing and distribution relationships. Previously she served as Vice President of Newport Telecom where she was instrumental in assisting with the development of the business. Ms. Feuer brings over 10 years of marketing and strategic planning experience to CentreCom.

### **Doug Sprague, Vice President - Customer Support**

Doug Sprague is responsible for overseeing customer service and sales fulfillment. Mr. Sprague brings over eight years of management experience in both the profit and non-profit sectors to CentreCom. Prior to joining CentreCom, Mr. Sprague spent three years managing staff and volunteers for non-profit groups in California and Arizona. Prior to that he managed both sales and support for the Northern California

office of Nunc, Inc., a biotech plastics manufacturer. Prior to this he managed sales, support and marketing for the Pacific Northwest office of Waters Chromatography, a subsidiary of Millipore Corporation.

The Company is currently recruiting experienced managers from the telecommunications and software industries to round out the management team and assume the roles of President, Chief Technical Officer and Vice President - Direct Sales and Distribution, respectively.

## **Employees**

The Company currently has 8 full-time employees and also utilizes the services of several independent contractors to meet its organizational requirements. Additionally, the company uses the expertise of Cisco, Microsoft and Sun as well as other outside organizations to assist with the development of its products, network and other infrastructure. The Company's plan projects the hiring of a significant number of new employees within the next year. The vast majority of these will be CSRs (customer service representatives) and sales and marketing personnel.

## **Ownership**

As of December 1, 1999, CentreCom had approximately 10,500,000 shares of common stock outstanding. The substantial majority of the shares are owned by Don and Kathleen Feuer with the remainder held by two minority investors. The Company has also allocated approximately 1,500,000 shares for options to recruit key management and warrants to be issued in conjunction with the completion of various financing transactions currently contemplated. Of the 1,500,000 allocated shares discussed above, approximately 1,100,000 are committed as of December 1, 1999.

# **APPENDIX A**

## **FINANCIAL PLAN**

## **APPENDIX B**

### **REGULATORY ENVIRONMENT**

#### **Regulation of Internet Telephony**

The use of the Internet to provide telephone service is a recent market development. Currently, the Federal Communications Commission (the "FCC") is considering whether to impose surcharges or additional regulations upon certain providers of Internet telephony. On April 10, 1998, the FCC issued its report to Congress concerning the implementation of the universal service provisions of the Telecommunications Act. In the report, the FCC indicated that it would examine the question of whether certain forms of phone-to-phone Internet telephony are information services or telecommunications services. The FCC noted that it did not have, as of the date of the report, an adequate record on which to make a definitive pronouncement, but that the record suggested that certain forms of phone-to-phone Internet telephony appear to have the same functionality as non-Internet telecommunications services and lack the characteristics that would render them information services. If the FCC were to determine that certain services are subject to FCC regulation as telecommunications services, the FCC may require providers of Internet telephony services to make universal service contributions, pay access charges or be subject to traditional common carrier regulation. The FCC may regulate PC to Phone and Phone-to-Phone services differently. In addition, the FCC sets the access charges on traditional telephony traffic and if it reduces these access charges, the cost of traditional long distance telephone calls will probably be lowered, thereby decreasing CentreCom's competitive pricing advantage.

In September 1998, two regional Bell operating companies, US WEST and BellSouth, advised Internet telephony providers that the regional companies would impose access charges on Internet telephony traffic. In addition, US WEST has petitioned the FCC for a declaratory ruling that providers of interstate Internet telephony must pay federal access charges, and has petitioned the public utilities commissions of Nebraska and Colorado for similar rulings concerning payment of access charges for intrastate Internet telephone calls.

At this time, it is not known whether these companies, US WEST and BellSouth, will actually impose access charges or when such charges will become effective. The imposition by these companies of such access charges may reduce the cost savings of using Internet telephony as compared to traditional telephone service. The existence of these access charges could materially adversely affect the development of our Internet telephony business. In February 1999, the FCC adopted an order concerning payment of reciprocal compensation that provides support for a possible finding by the FCC that providers of Internet telephony must pay access charges for at least some subset of Internet telephony services. If the FCC were to make such a finding, the payment of access charges could materially adversely affect CentreCom's business, results of operations and financial condition.

To management's knowledge, there are currently no domestic and few foreign laws or regulations that prohibit voice communications over the Internet. State public utility commissions may retain jurisdiction to regulate the provisioning of intrastate Internet telephony services. A number of countries that currently prohibit competition in the provisioning of voice telephony have also prohibited Internet telephony. Other countries permit but regulate Internet telephony. If Congress, the FCC, state regulatory agencies or foreign governments begin to regulate Internet telephony, such regulation may have materially adverse effect on the Company's business, financial condition or results of operations.

#### **Regulation of the Internet**

Congress has recently adopted legislation that regulates certain aspects of the Internet, including online content, user privacy, taxation, access charges, liability for third-party activities and jurisdiction. The European Union has also enacted several directives relating to the Internet, one of which addresses

online commerce. In addition, federal, state, local and foreign governmental organizations are considering other legislative and regulatory proposals that would regulate the Internet. Increased regulation of the Internet may decrease its growth, which may negatively impact the cost of doing business via the Internet or otherwise materially adversely affect the Company's business, results of operations and financial condition.

The Federal Trade Commission (the "FTC") has proposed regulations regarding the collection and use of personal identifying information obtained from individuals when accessing Web sites, with particular emphasis on access by minors. These regulations may include requirements that companies establish certain procedures to disclose and notify users of privacy and security policies, obtain consent from users for certain collection and use of information and to provide users with the ability to access, correct and delete personal information stored by the company. These regulations may also include enforcement and redress provisions. There can be no assurance that policies adopted by the Company will conform to any regulations adopted by the FTC. Moreover, even in the absence of those regulations, the FTC has begun investigations into the privacy practices of companies that collect information on the Internet. One investigation resulted in a consent decree pursuant to which an Internet company agreed to establish programs to implement the principles noted above. The Company may become subject to a similar investigation, or the FTC's regulatory and enforcement efforts may adversely affect the ability to collect demographic and personal information from users, which could have an adverse effect on our ability to provide highly targeted opportunities for advertisers and electronic commerce marketers. Any of these developments could materially adversely affect the Company's business, results of operations and financial condition.

The European Union has adopted a directive that imposes restrictions on the collection and use of personal data. Under the directive, citizens of the European Union are guaranteed rights to access their data, rights to know where the data originated, rights to have inaccurate data rectified, rights to recourse in the event of unlawful processing and rights to withhold permission to use their data for direct marketing. The directive could, among other things, affect United States companies that collect information over the Internet from individuals in European Union member countries, and may impose restrictions that are more stringent than current Internet privacy standards in the United States. In particular, companies with offices located in European Union countries will not be allowed to send personal information to countries that do not maintain adequate standards of privacy. The directive does not, however, define what standards of privacy are adequate. As a result, the directive may adversely affect the activities of entities such as the Company that engage in data collection from users in European Union member countries.

## **APPENDIX C**

### **PROFESSIONAL ADVISORS**

#### **Legal Advisors:**

##### **Stradling Yocca Carlson & Rauth**

660 Newport Center Drive  
Suite 1600  
Newport Beach, CA 92660  
Contact: Nick Yocca  
Corporate Counsel

##### **McCauley and Smart**

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El Toro, CA 92610  
Contact: Jack Smart  
Corporate Counsel

##### **Price, Gess & Ubell**

2100 S.E. Main Street  
Suite 250  
Irvine, CA 92614  
Contact: Al Gess  
Patent Counsel

#### **Certified Public Accountants:**

##### **PriceWaterhouseCoopers LLP**

575 Anton Blvd.  
Suite 1100  
Costa Mesa, CA 92626  
Contact: Les Thomas

#### **Public Relations:**

##### **Bock Communications, Inc.**

575 Anton Blvd.  
Suite 530  
Costa Mesa, CA 92626  
Contact: Christine Bock

## APPENDIX D

### SUMMARY OF RISK FACTORS

CentreCom is a "growth stage" company which during its a limited operating history has operated at a loss. While the projections included herein are management's good faith estimates, there can be no assurance that the projected sales will be achieved at the prices projected, or that the Company will ever be profitable. The Company's prospects must be considered in light of the significant risks, challenges and difficulties frequently encountered by "growth stage" companies. To address these risks, the Company must, among other things, successfully increase the scope of its operations, respond to competitive and technological developments, continue to attract, retain and motivate qualified personnel and continue to develop and obtain market acceptance of its products.

The following is a summary of some of the substantial number of risk factors the Company faces.

- Additional financing may be necessary to sustain operations, and such financing may not be available to the Company on acceptable terms, or at all.
- The market in which the Company competes is highly competitive and includes many companies that have greater financial and other resources than CentreCom.
- CentreCom is dependent on a limited number of key members of management and a limited number of component vendors necessary for the production of its products. The loss of any of the key members of management could have a material adverse affect on the Company's business and financial condition.
- The Company may be unable to effectively and economically protect its domestic patents and intellectual property. In addition, the Company's products are not currently covered by any foreign patents.
- The rapid growth that the Company expects will place a significant strain on the Company's management, operating and finance systems.
- The Company's business plan anticipates sales on a worldwide basis which subjects the Company to the risks associated with doing business abroad. These risks include, but are not limited to, changing and/or unstable governments, changing regulation and legislation, the ability of the Company to be effectively represented in legal matters, and foreign currency fluctuations.
- The Company has never been profitable and might continue to generate losses. As a result, investors could sustain a complete loss of their investments in the Company.
- If the Internet does not continue to grow as a medium for voice communications, CentreCom's business will suffer.
- The technology that allows voice communications over the Internet is still in its early stages of development. Historically, the sound quality of Internet calls has been poor. As the industry has grown, sound quality has improved, but the technology requires further refinement. Additionally, the Internet's capacity constraints may impede the acceptance of Internet telephony. Callers could experience delays, errors in transmissions or other interruptions in service. Making telephone calls over the Internet must also be accepted as an alternative to traditional telephone service. Because the Internet telephony market is new and evolving, predicting the size of this market and its growth rate is difficult. If the Company's market fails to develop, then CentreCom will be unable to grow its customer base and its opportunity for profitability will be harmed.

- The use of the Internet as a commercial marketplace is at an early stage of development. Demand and market acceptance for recently introduced products and services over the Internet are still uncertain. The Company cannot predict whether customers will be willing to shift their traditional activities online. The Internet may not prove to be a viable commercial marketplace for a number of reasons, including:

- Concerns about security;
- Internet congestion;
- Inconsistent service; and
- Lack of cost-effective, high-speed access.

If the use of the Internet as a commercial marketplace does not continue to grow, CentreCom may not be able to grow its customer base, which may prevent the Company from achieving profitability.

- Governmental regulations regarding the Internet may be passed which could impede the Company's business. To date, governmental regulations have not materially restricted use of the Internet in CentreCom's market. However, the legal and regulatory environment that pertains to the Internet is uncertain and may change. New regulations could increase the costs of doing business and prevent the Company from delivering products and services over the Internet. The growth of the Internet may also be significantly slowed. This could delay growth in demand for the Company's products and services and limit the growth of CentreCom's revenue.
- In addition to new regulations being adopted, existing laws may be applied to the Internet. New and existing laws may cover issues that include:
  - Sales and other taxes;
  - Access charges;
  - User privacy;
  - Pricing controls;
  - Characteristics and quality of products and services;
  - Consumer protection;
  - Contributions to the universal service fund, an FCC-administered fund for the support of local telephone service in rural and high cost areas;
  - Cross-border commerce;
  - Copyright, trademark and patent infringement; and
  - Other claims based on the nature and content of Internet materials.
- The Company's risk management practices may not be sufficient to protect us from unauthorized transactions or the theft of services. From time to time, callers have obtained our services without rendering payment by unlawfully using our access numbers and personal identification numbers. We attempt to manage these theft and fraud risks through our internal controls and our monitoring and blocking systems. If these efforts are not successful, the theft of our services may cause our revenue to decline significantly.

Any of the risk factors to which the Company is subject, including, but not limited, to the above, could have a material adverse effect on the Company's business, operating results and financial condition. As a result, the Company could be required to significantly reduce or suspend its operations, seek a merger partner or sell some or substantially all of its assets.

## APPENDIX E

### DEFINITIONS AND TERMINOLOGY

#### Acronyms

**API:** Application Programming Interface

**ATM:** Asynchronous Transfer Mode

**CATV:** Community Access Television

**CPE:** Customer-Premises Equipment

**XDSL:** x Digital Subscriber Line (e.g., x = A for "asymmetric", x = H for "high bit-rate")

**DSP:** Digital Signal Processor

**FAXoIP:** Facsimile over Internet Protocol

**IP:** Internet Protocol

**ISDN:** Integrated Services Digital Network

**ISP:** Internet Service Provider

**ITU:** International Telecommunications Union

**KBPS:** Kilobytes Per Second

**LAN:** Local Area Network

#### Definitions

**AUTOMATED ORDER ENTRY:** The "paperless" provisioning of new orders, moves, adds or changes.

**BACKBONE NETWORK:** Transmission facility, or arrangement of such facilities, designed to interconnect networks.

**CALLBACK** (also called RE-ORIENTATION): A system for signaling a switch to originate dial tone at another location indicating that a connection is desired. Typically, a caller calls a specific telephone number and hangs up without opening the circuit. The distant switch recognizes the caller and calls back giving dial tone from a less costly vantage point.

**CALLING CARDS** (also called TRAVEL CARDS): Cards used to activate a switch off premises for calls to be billed to the caller's account.

**CALL DETAIL RECORD (CDR):** A complete record of a call event including customer numbers, call to and from numbers, time stamps, and originating and terminating trunk groups. The CDR contains all information necessary to bill a call event to a customer.

**CUSTOMER IDENTIFICATION NUMBER:** A unique number used to securely identify and bill a specific customer.

**DEBIT CARD:** A pre-paid calling card.

**DIRECT INWARD DIAL (DID):** Direct Inward Dial is a facility provided by the local exchange provider, e.g., Pacific Bell, to allow one circuit to handle inbound calls for different extensions. DID does not represent a working bandwidth circuit but a numbering scheme that can be directed through any set of trunk groups.

**DIRECT ACCESS:** The opposite of CALLBACK or RE-ORIGINATION. The caller accesses the switch directly and then processes the call without hanging up.

**DISTRIBUTOR:** See MASTER DISTRIBUTOR.

**DIVESTITURE:** Under the terms of the Modification of Final Judgment, AT&T relinquished ownership and control of the local Bell telephone operating monopoly.

**DUAL TONE MULTI-FREQUENCY (DTMF):** Method of signaling (dialing) using a tone pad. Each digit dialed generates a unique frequency that the central office is programmed to recognize as a particular digit. This is also called "touch tone".

**END-USER:** The ultimate consumer. Typically small to medium businesses.

**ENHANCED SERVICES:** The combination of "basic" telephony service with computer processing applications that results in a modification of the transmitted information e.g., fax broadcasting, voicemail, etc.

**FACILITIES:** Transmission path between two or more points, provided by a common carrier.

**FREEPHONE:** An international version of toll free 800 service.

**GENERIC LABEL:** Billing under a generic name not associated with the Master Distributor. CentreCom, Inc. will create generic products for small Distributors that do not meet the billing criteria for private label billing.

**INTERNATIONAL TELECOMMUNICATIONS UNION (ITU):** The ITU, located in Geneva, Switzerland, is the United Nations authority and monitor for international communication treaties, tariffs, regulatory issues, and settlement agreements. The ITU is the single source for worldwide telephony information including all networks, voice, data, cellular and hardware data supplied by the regulatory authorities of participating countries. The ITU does not necessarily have resolution authority for international communications disputes. They do however provide third party arbitration for inter-country disputes.

**LAN AGENT** (also see **MASTER DISTRIBUTOR**): A non-employed representative of CentreCom, Inc. May be a Master Distributor or the Master Distributor's Representative. The Master Distributor has a formal relationship to CentreCom, Inc. The Master Distributor's Representative has a formal relationship to the Master Distributor.

**LEASED LINE:** See PRIVATE LINE.

**MASTER DISTRIBUTOR:** An organized agency committed to a generating a large volume of CentreCom product sales and providing organized customer service. CentreCom, Inc. requires Master Distributors to maintain certain monthly billing minimums and meet certain customer service criteria by the second year of offering CentreCom services. A non-employed representative of CentreCom, Inc. The Master Distributor has a formal relationship to CentreCom, Inc.

**PASSCODE:** 4+ DIGIT codes that allow a customer access to their account.

**POSTAL, TELEPHONE & TELEGRAPH (PT&T):** A generic term for the monopolistic provider of communications and related regulations in a specific geographic region.

**PRIVATE LABEL:** Billing under the name of the Master Distributor who meets specific criteria for private label billing.

**PRIVATE LINE:** A long-distance circuit removed from the regular switched public network and dedicated for a specific customer's use.

**PROVISIONING:** The processing of orders or service requests. Automated provisioning is the "paperless" processing of orders or service requests.

**PUBLIC SWITCH TELEPHONE NETWORK (PSTN):** A circuit-switched analog network, which makes connections for the duration of a telephone call. These connections are usually used for voice but can also carry data between facsimile machines and computers (via a modem).

**RE-ORIGINATION:** See CALLBACK.

**SIMPLE RESELL:** Non-facility based resell of service; term is primarily used internationally.

**STORE & FORWARD AUTO DIALERS:** A hardware system that is attached to the telephone apparatus used to make processing transparent to the user.

**SWITCH:** A piece of equipment that establishes and routes communication paths between separate extensions.

**TARIFF:** Published service offerings and rate schedules of a common or specialized carrier. The FCC or the local Public Utilities Commission (PUC) has the authority to disapprove a proposed tariff.

**TRAVEL CARDS:** See CALLING CARDS

**TONE GENERATORS:** A portable telephone dialing apparatus that is used to send DTMF tones to switching equipment from areas that have non-digital rotary or pulse. Digital equipment utilized by CentreCom, Inc. requires touch-tone or DTMF signaling.

**UNBUNDLED SERVICES:** Services that are not packaged and can be bought or sold separate from other service offerings.

**USER GROUPS:** Groups that have services or issues in common.

**VIRTUAL PRIVATE NETWORK (VPNs):** Through the use of sophisticated, computer-controlled switching functions, these systems provide the functions and features of a private network without the need for dedicated private lines. Also called Software-defined Networks (SDNs)

**VOICE OVER IP:** Voice over IP enables a router to carry voice traffic (for example, telephone calls and faxes) over an IP network. In Voice over IP, the DSP segments the voice signal into frames, which are then coupled in groups of two and stored in voice packets. These voice packets are transported using IP in compliance with ITU-T specification H.323.

**WIRELESS:** Does not use cable or copper wire but typically radio frequencies.

**X.25 PACKET SWITCHING:** A protocol developed for international telephone carriers for packet switching procedures. Most e-mail networks use X.25 networks.